International Monetary and Financial Committee

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Statement by Mr. Guy Ryder
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On behalf of the International Labour Organization (ILO)

Reversing the slide into a low growth trap

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Summary

- The slow growth of the global economy in recent years shows signs of becoming a persistent low growth trap.
- Weak employment growth, stagnant wages and widening inequality are depressing consumption and deterring investment in many countries.
- Some policy responses seek to gain foreign markets through further downward pressure on wages to gain competitive advantage. Such "beggar thy neighbour" behaviour can further depress consumption and increase the risk of deflation, particularly in the Eurozone.
- These trends must be countered by coordinated policies for an equitable and job-rich recovery and growth.
- Labour market policies need to focus on the demand as well as supply side of the relationship between jobs and growth.
- Faster growth in job opportunities is necessary to address the global youth employment crisis and to attract women into the labour force.
- Infrastructure investment is urgently needed in both advanced and developing economies to help stimulate recovery, speed transition to low carbon production and consumption and recoup many years of underinvestment.
- Progress towards comprehensive social protection systems is an important foundation for poverty reduction, resilience of households and communities and stabilization of economies in the slow growth and volatile environment we currently face.
- The new, post-2015 framework for sustainable development should be founded on a reorientation of macroeconomic policies towards the goals of full employment, decent work, reduced inequality and the elimination of extreme poverty.

Serious risk of global economy getting stuck in a low growth trap

1. Growth in the global economy is slowing in 2014 and even the forecasts of slight improvement in 2015 are beset with uncertainty. Accommodative monetary policy in several countries has pumped liquidity into the global economy but has not stimulated private investment in the real economy despite very low interest rates. Instead market speculation has again been on the upswing and many corporations have opted to accumulate cash. Fiscal policy is still tight in most countries but public debt levels are not declining as tax revenue is weakened by depressed consumption and incomes for the bulk of the workforce.

2. Demand for labour is weak and hiring is not keeping pace with the growth of the world's workforce. The increase in unemployment and the fall in employment participation rates that followed on the global financial crisis persist in many countries. Self-employment is an increasing share of what growth in employment there is. In many developing countries this is largely informal and of a subsistence character.

3. Real wage growth is weak in most countries for all but the very highest paid. As a result the biggest component of the global economy and potential driver of global growth – household consumption --is flat.

4. Economic growth and the quantity and quality of employment are intertwined. Weakness in labour markets is inhibiting growth which in turn feeds back into a further slowing of employment growth and wages. This dangerous downward spiral risks pushing the world economy in a low growth trap – "secular stagnation" as some economists have dubbed it.

5. Despite progress in reducing extreme poverty since 2000 enormous challenges remain in transforming the pattern of global development to meet the goals of economic, social and environmental sustainability. Establishing a new framework for inclusive growth through full and productive employment and decent work is central to a renewed global drive to eradicate extreme poverty and reduce inequality. Re-establishing a positive relationship between growth and jobs is critical to avoid a low growth trap and to achieve strong, sustainable and balanced growth in the medium term.

Jobs gap widens

6. Overall the global jobs gap that was opened by the financial crisis in 2008 continues to widen. In 2013, this gap reached 62 million jobs. Looking ahead to 2018 (using IMF growth forecasts from October 2013), our projections suggest that around 40 million net new jobs will be created every year, less than the 42.6 million people expected to enter the labour market each year. With 2014 growth running below the forecast, this jobs gap will widen further.[1]

7. In 2013, 375 million workers (or 11.9 per cent of total employment) are estimated to have been living on less than US$1.25 per day and 839 million workers (or 26.7 per cent of total employment) have to cope on US$2 a day or less. This is a substantial reduction in comparison with the early 2000s, however, progress in reducing working poverty has slowed with the crisis and uneven recovery. In 2013, the number of workers in extreme poverty declined by only 2.7

[1] Global Employment Trends 2014 – the risk of a jobless recovery, ILO

per cent globally, one of the lowest rates of reduction over the past decade, with the exception of the immediate crisis year.

Stagnant real wages

8. Coinciding with the sizeable jobs gap is a deterioration in job quality in a number of countries. On average, the crisis brought down the growth rate of average real wages to about 1 to 2 per cent. That modest growth was attributable almost entirely to emerging economies, particularly China, while wage growth in advanced economies has been fluctuating around zero since 2008 and been negative in some countries. Wage and income inequality has continued to widen within many countries, although progress has been made in a few emerging economies.[2]

9. The decline in labour's share of income observed in many large economies over recent decades has continued. This trend reflects a widening gap between growth in wages and labour productivity in many countries, particularly in the US and Germany. The increased share of income going to profits has not led to a rise in investment. Investment has been falling as a share of national income in many countries and in advanced economies is below 20 per cent of GDP compared to over 25 per cent in the 1990's.

Risk of policy responses that further weaken prospects for recovery

10. Against this backdrop of slackening growth, WTO economists have reduced their forecast for world trade growth in 2014 to 3.1% (down from the 4.7% forecast made in April) and cut their estimate for 2015 to 4.0% from 5.3% previously. Efforts by countries to increase exports in this environment by reducing unit labour costs risks provoking a downward spiral of wage cuts. The decline of wages in some European countries is a major contributor to the risk of deflation in the Eurozone.

11. Inadequate social protection coverage is a significant factor in persistent poverty, economic insecurity, growing levels of inequality and insufficient investment in human capabilities. It is also a factor in weak aggregate demand. There has been significant progress in extending coverage of social protection system and improving their level in a number of emerging economies. However social protection systems in a number of countries have been weakened by fiscal consolidation and adjustment measures.[3]

Coordinated action to restore global aggregate demand

12. A major policy effort is required to reverse the slide into persistent low growth. In addition to the economic damage that scenario holds it also has potentially adverse political consequences, as frustrated aspirations for decent work and rising living standards contribute to political extremism and narrow nationalism. The multilateral system in which the IMF plays a key role was built to overcome such tendencies through "the promotion and maintenance of high levels of employment and real income and the development of the productive resources of all members as primary objectives of economic policy..."[4]

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[2] Global Wage Report 2014/5, ILO, forthcoming.
[3] World Social Protection Report 2014/15, ILO.
[4] Article 1 (ii) of the IMF's Articles of Agreement.

11. The priority must be to lift aggregate global demand. This should be led by the systemically important economies of the G20. While different countries face different challenges, all should review current policies with a view to stimulating consumption by households, which would contribute to business confidence to invest. The ILO fully supports the conclusion of Chapter 3 of the IMF's latest World Economic Outlook that "that increased public infrastructure investment raises output in both the short and long term, particularly during periods of economic slack and when investment efficiency is high." Boosting infrastructure investment should also focus on the reduction of carbon emissions.

12. Alongside pro-growth fiscal, financial and monetary policies, countries will need to strengthen demand and supply-side employment and social policies including:

- Promoting well-designed minimum wage setting and collective bargaining mechanisms.
- Strengthening and extending social protection systems.
- Anticipating and responding to changing skill needs by providing good labour market information systems to guide career and training decisions.
- Ensuring the acquisition of good foundation skills as the base for learning new skills throughout working life.
- Adapting labour market regulation to facilitate mobility within and between workplaces through amongst other things effective support to unemployed and other vulnerable groups via strengthened job search services and social protection systems.
- Tackling gender discrimination with the aim of lifting female participation in employment.
- Prioritizing programmes for youth employment and training.
- Promoting the participation of underrepresented groups in the formal labour market.
- Facilitating innovation and entrepreneurship, with a special emphasis on small and medium-sized enterprises.

Macroeconomic policies for sustainable development

13. A prolonged period of low growth would be a disastrous start to the renewed global drive for sustainable development that is currently being discussed in the UN as well as in the IMF and the World Bank Group. The global policies to reverse the slide into a low growth trap must lead on to a reorientation of the framework for macroeconomic policy coordination to focus on full employment, decent work, reduced inequality and the elimination of extreme poverty.